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GOOD CORPORATE GOVERNANCE AND COMPANY'S FINANCIAL PERFORMANCE WITH A PERSPECTIVE AGENCY THEORY IN COMPANIES LISTED IN THE LQ45 INDEX

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Abstract

This study examines the impact of good corporate governance on the company's financial performance. The population in this study are companies listed in the LQ45 Index for the 2017-2021 period. This study used a purposive sampling technique and obtained 28 companies, with as many as 140 observations. The result shows that managerial ownership has no significant effect on the company's financial performance. The variable size of the board of directors has a significant positive effect on the company's financial performance. The independent commissioner variable has no significant effect on the company's financial performance. Audit committee meeting variables and gender diversity have no significant effect on the company's financial performance. Firm size as a control variable has no significant effect on company finances, and leverage as a control variable has a significant negative effect on the company's financial performance. Further researchers are also advised to examine other factors related to good corporate governance.

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INTRODUCTION

Competition in the current era is growing so rapidly, thus creating intense competition in the industry. This competition requires companies to develop strategies in order to compete and develop. In general, a company is a business entity that is controlled and managed by people who have special skills and knowledge to achieve company goals. The company's skills in generating profits from commercial activities can be used as a measure of the company's financial performance (Martina & Veronica, 2013).

Achieving a company's financial performance is one of the foundations for investors in evaluating and assessing a company and its prospects for the future (Lestari et al., 2021). Good financial performance will try to raise standards for investors who want to increase their capital (Kumalasari & Wijayanto, 2020). Setyawati & Amelia (2018) stated that the company's financial performance benchmarks can be seen from the company's financial reports. Financial statements are information that describes the financial condition of a company, and they can be used to describe a company's financial performance (Fahmi, 2012).

According to Core et al. (2006), operating profit, as measured by ROA, is a better measure when examining the relationship between financial performance and corporate governance. ROA is the distribution ratio between the company's net profit and the company's total assets (Maftukhah, 2013). ROA is used to measure a company's financial performance in generating profits by utilizing the assets owned by the company (Wijayanto, 2010).

On average, the financial performance of companies listed on the LQ45 index is considered better than that of other companies listed on the Indonesia Stock Exchange that are not classified

as LQ45. However, if you pay attention to the average value of the company's financial performance, it has decreased from 2017-2021. As shown in Figure 1. below this:

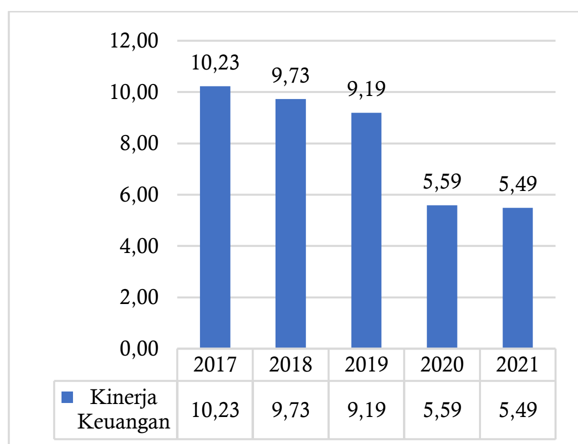


Figure 1. Graph of Average Financial Performance (ROA) of Companies Listed in the LQ45 Index

This research is motivated by a discrepancy between the financial report data contained in LQ45 for 2017-2021 and financial performance. The following is empirical data regarding variables that are thought to influence the financial performance of companies listed on the LQ45 index in 2017-2021.

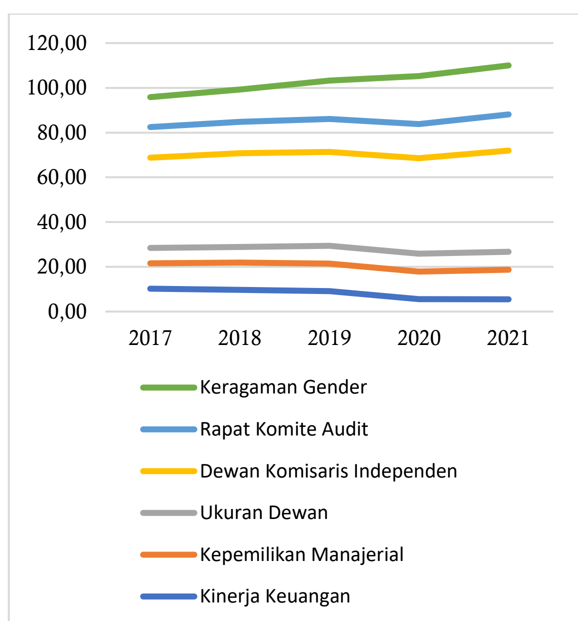


Figure 2. Graph of Average LQ45 Company Research Variables Listed in the LQ45

The picture shows that the managerial ownership of LQ45 index companies in 2017-2021 has increased every year. The value that has increased is not directly proportional to the value of financial performance which has decreased. This is not in line with agency theory, which explains that the higher the managerial ownership, the greater the possibility of a conflict of interest in the prevailing principles, and therefore, financial performance will decrease (Hasan et al., 2018).

Figure 2. shows that the size of the board of directors for LQ45 index companies in 2017-2021 is stable and consistent with the average in 2017 and 2018 of 7 people, while in 2019-2021, it was eight people. This stable value is not directly proportional to the value of financial performance, which decreased from 2017 to 2021. This is not in line with the agency theory, which states that a company with a large number of boards of directors tends to improve the company's financial performance because it is considered more effective in better controlling and monitoring management and more optimal decision-making (Azis, 2017).

The figure above shows that the independent board of commissioner variable in the LQ45 index company has increased every year. The increase in the board of independent commissioners was actually followed by a decline in financial performance companies in 2017-2021 of 10.23%, 9.73%, 9.19%, 5.59, and 5.49%. This phenomenon is not in line with agency theory, which states that companies with a high number of independent commissioners will improve the company's financial performance because it is considered to reduce agency problems and prevent opportunistic behavior (Suaidah & Setyoningrum, 2021).

Figure 2. shows that the frequency of audit committee meetings for LQ45 index companies in 2017-2021 has increased and stabilized in 2017-2021. In 2017 and 2018, the frequency of audit committee meetings was 14x, while for 2019, 2020, and 2021, it increased to 15x and 16x. This increase is not directly proportional to the value of financial performance, which has decreased every year. This is not in line with the agency theory, which explains that companies with a high frequency of audit committee meetings will tend to have high financial performance because they are considered capable of improving monitoring, thereby reducing agency problems and maximizing shareholder returns (Yakob & Hasan, 2021).

Based on the data listed in Figure 2, gender diversity in the 2017-2021 LQ45 index companies has increased every year. This increase is not directly proportional to the value of financial performance, which has decreased every year. This is inconsistent with agency theory, which states that board gender diversity influences board members to work to satisfy the interests of shareholders rather than their own interests (Ahren & Dittmar, 2012).

In addition to the gap phenomenon, there were also inconsistencies in research results or research gaps regarding the variables of managerial ownership, independent board of commissioners, board size, audit committee meetings, and gender diversity on company financial performance,e which were controlled using company size and leverage variables.

According to Puni & Anlesinya (2020), the presence of managerial ownership in companies improves financial performance. The results of this study are supported by the results of research from Bhagat & Bolton (201, which found9) that director share ownership is the most consistent and positively related to company performance in the future. However, according to Ramadan & Hassan (2022) and Queiri et al. (2021), managerial ownership has a negative effect on company finances, in contrast to the results of research from Shan (2019), which found evidence that managerial ownership has no effect on financial performance.

Agency theory suggests that boards should be formed in large numbers with the aim of improving communication and coordination within the board (Puni & Anlesinya, 2020). These results are in line with the research of Al Farooque et al. (2020), Bansal & Singh (2022), Gulzar et al. (2020), Queiri et al. (2021), namely the size of the board of directors has a positive relationship with company performance. Conversely, board size shows a negative relationship with company performance (Saidat et al., 2019); (Kiptoo et al., 2021); (Kao et al., 2019). In addition, the results of research from Assenga et al. (2018) show that the size of the board of directors has no effect on financial performance.

According to Krisnauli (2014), the larger the size of the board of commissioners will facilitate more effective management oversight so that management will maximize performance properly. The research results from Kiptoo et al. (2021), Kao et al. (2019), and Rahmawati et al. (2017) show that the board of commissioners has a positive effect on the company's financial performance. However, the results of Queiri et al. (2021) and Prasetio (2021) state that the board of commissioners has a negative effect on a company's financial performance. The results of other studies show that the independent board of commissioners has no effect on financial performance (Sobhan & Adegbite, 2021); (Gulzar et al., 2020).

According to Kent & Stewart (2008), the quantity of disclosure is positively related to the frequency of board and audit committee meetings held. The frequency of audit committee meetings shows some effect on the ROA financial performance indicator but has no effect on Tobin's Q (Kyere & Ausloos, 2021). According to Tai et al. (2020), Puni & Anlesnya (2020), and Al Farooque et al. (2020), the number of audit committee meetings has a positive effect on a company's financial performance. However, there is some conflicting evidence from the results of other studies. According to Klein (1998), Bansal & Singh (2022), and Ramadan et al. (2022), the attendance of audit committee meetings has no effect on the company's financial performance, and according to Danoshana & Ravivathani (2019); Kyere & Ausloos (2021); Queiri et al. (2021) the frequency of audit committee meetings has a negative impact on company performance.

Board gender diversity has a significant positive relationship with company performance as measured by ROA (Ramadan & Hassan, 2022). These results indicate that the more women sitting on the board, the more efficient the board is in managing the company's resources and assets (Ramadan & Hassan, 2022). The higher the percentage of female directors, the better fewer agency problems and better company performance (Ramadan & Hassan, 2022); (Kiptoo et al., 2021). However, research from Abbadi et al. (2021) and Ibhagui & Olokoyo (2018) have not captured all the benefits that come with gender diversity, so it has a negative influence. In addition, there are research results that show no effect between gender diversity on financial performance (Ramadhan et al., 2022).

Hypothesis Development

The Relationship between Managerial Share Ownership and Financial Performance

Managerial ownership is a term used to describe directors or senior officers in a company who own some company stock, usually more than 10% of voting stock (Jensen & Meckling, 1976). Managerial ownership is one of several governance mechanisms (Jensen & Meckling, 1976).

Based on the perspective of agency theory, a concentrated ownership structure provides incentives for monitoring the management of large shareholders, thereby minimizing agency costs and improving financial performance (Maher & Anderson, 1999). However, some experts argue that an increase in managerial ownership can cause a conflict of interest between major shareholders and minor shareholders. This is because there is a possibility that the first shareholder will take over the last shareholder, thereby reducing financial performance (Hasan et al., 2018).

Agency theory states that shared ownership by agents or managers can be regarded as a solution to agency conflicts. This is used as a unifying interest between shareholders and managers, and the greater the percentage of shares owned by managerial parties, the better the company's performance will be (Jensen & Meckling, 1976). Mardaningsih et al. (2021) state that the difference in interests that occurs between shareholders and managers is due to the absence of ownership of interests by management in the company.

H_1: Managerial share ownership has a significant positive effect on financial performance

The Relationship between The Size of the Board of Directors and Financial Performance

According to Wicaksono & Ardiansari (2018), the board of directors is a party in a company whose job is to carry out the operations and management of the company. Board size is an important mechanism that can contribute to reducing agency problems (Jensen, 1993).

Board size affects the level of oversight, control, monitoring, and decision-making in the company (Ramadan & Hassan, 2022). Company size can be seen from how many directors are in a company (Williams et al., 2005). The general finding is that companies that have a large board of directors tend to have effective oversight, thereby increasing company performance (Kyere & Ausloos, 2021). Bansal & Singh (2022) found a positive relationship between board size and financial performance. Puni & Anlesinya (2020) show that a larger board size can be a resource for improving a company's financial performance.

Agency theory suggests that boards should be formed into large enough numbers with the aim of improving communication and coordination within the board (Puni & Anlesinya, 2020). The size of the board of directors is important in determining the direction and running of the company to achieve good company financial performance (Prasetio, 2021). Larger boards can also improve the company's financial performance through the provision of creative ideas and knowledge as well as more effective information (Gulzar et al., 2020)

H_2: The size of the board of directors has a significant positive effect on financial performance

The Relationship between The Independent Board of Commissioners and Financial Performance

According to Law no. 40 of 2007 concerning Limited Liability Companies, the board of commissioners is the organ of the company that is tasked with carrying out general and special supervision in accordance with the articles of association and providing advice to the directors. Independent commissioners are members of the Board of Commissioners who are not affiliated with or have no relationship with the Board of Directors. An independent board of commissioners that is not affiliated means that it has no relationship with members of the board of directors and board of commissioners, shareholders, and controllers and has no relationship with the company that can influence itself to be independent (Rahman & Safitrie, 2018).

Agency theory says that agency conflicts that can lead to agency costs can be minimized with quality supervision (Jensen & Meckling, 1976). The voice of the company's shareholders can be better represented when the percentage of independent commissioners in a company has increased, which can minimize the possibility of agency problems occurring between management and shareholders. Besides that, the supervision will be more stringent, which will have an impact on reducing agency costs (Pratiwi et al., 2016).

H_3: The independent board of commissioners has a significant positive effect on financial performance

The Audit Committee Meeting and Financial Performance

According to the National Committee on Governance Policy (KNKG, 2006), the audit committee is a committee that supports and assists the board of commissioners, whose job is to ensure reports of the existing financial statements in the company are presented proportionally in accordance with generally accepted accounting principles, internal and external control structures which are carried out according to applicable auditing standards and follow-up audit findings carried out by management.

According to agency theory, the frequency of committee meetings can be assigned by the committee, so monitoring goes well and can motivate the board to perform even better (Yakob & Hasan, 2021). The higher the committee holds a meeting, the faster it can solve operational problems in order to improve the company's financial performance, thereby reducing fraud in the company (Malik & Makhdoom, 2016). This is supported by research conducted by Al Farooque et al. (2020), Aiman & Rahayu (2019), and Fitriani & Zamzami (2018), which states that the audit committee meeting variable has a positive and significant influence on financial performance

H_4: Audit committee meetings have a significant positive effect on financial performance

The Relationship between Gender Diversity and Financial Performance

An important aspect related to the structure and functions of the board of directors is the diversity of board members. Gender diversity is part of the broader concept of board diversity (Kaur & Vu, 2017). Gender diversity is an interesting thing to pay attention to in relation to corporate governance in Indonesia, which still thinks that men are more appropriate to occupy important positions in a company. Although attractiveness considers the role of women in directors, it may result in better performance. However, claims of the role of women in improving financial performance have not been proven (Bajaher et al., 2021).

Under agency theory, gender diversity is a source of competitive advantage because women contribute to the company's monitoring efforts through their creativity, which improves the quality of the board's decision-making process so that the company's financial performance improves (Ahern & Dittmar, 2012). This is supported by research conducted by Ramadan & Hassan (2022) and Kiptoo et al. (2021), with the result that board gender diversity can result in lower volatility and improved operating performance (Phillips-Wren, 2018).

H_5: Gender diversity has a significant positive effect on financial performance

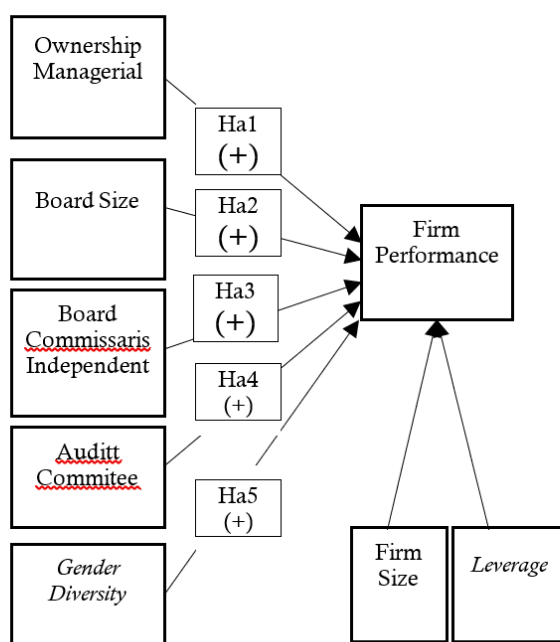


Figure 3. Thinking Framework

METHOD

This study uses a quantitative approach. The type of data used in this research is secondary data. The data used is in the form of annual reports and company financial reports in the LQ45 index. Variable data were obtained from the official website of the Indonesia Stock Exchange, www.idx.co.id, for financial report data, and the official website of each company for annual report data. Methods of data analysis in this study using multiple regression analysis. Hypothesis testing in this study used data processing software Eviews version 12.

The multiple linear regression equation of this study is as follows:

$$ROA = \alpha + \beta 1KM + \beta 2UD + \beta 3DKI + \beta 4KA + \beta 5KG + FS + LG + e$$

Where:

α = Constant

β = Regression coefficient of the independent variable

ROA = Return on Assets

KM = Managerial Ownership

UD = Size of the board of directors

DKI = Board of Independent Commissioners

KA = Audit committee meeting

KG = Gender diversity

FS = Company size

LG = leverage

Financial performance is the dependent variable in this study. The financial performance variable is proxied by ROA, which can be calculated by dividing net income by total assets.

Managerial ownership can be interpreted as the number of shareholdings owned by company insiders such as directors, commissioners, and company managers (Pratiwi et al., 2016). Managerial ownership can be calculated by dividing the number of managerial shares by the total outstanding shares.

The board of directors is the party appointed by the business owner to lead and manage the company (Juliana et al., 2017). The formula equation used is the total number of members of the company's board of directors

Independent commissioners are boards of commissioners who do not have a substantial interest in the company's business (Wardoyo & Veronica, 2013). The equation formula is by dividing the number of independent commissioners by the number of commissioners.

The audit committee usually improves the effectiveness of board functions by assessing audit quality and considering compensation (Al Farooque et al., 2020). The equation formula is the number of audit committee meetings.

According to agency theory, female directors can play a large role in minimizing agency costs, as they can bring new insights to boards and make complex decisions (Carter et al., 2003). The equation formula divides the number of boards of directors by the number of women on the board of directors.

According to Brigham (2013), company size is the average total net sales for the year in question for several years. The equation formula with Ln Assets. Leverage is the use of debt as a source of company funding Iswara (2014). The formula equation used in this study is total debt divided by total assets.

RESULT AND DISCUSSION

Estimation Model Selection

Chow test

Table 1. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	11.186879	(27,105)	0.0000
Cross-section Chi-square	189.695129	27	0.0000

Based on the results of the Chow test on the LQ45 index companies presented in the table above, it can be seen that the Chi-square Cross-section probability value is 0.0000 <0.05, so the selected model that is more appropriate to use to estimate panel data is the fixed effect model.

Hausman test

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	47.412652	7	0.0000

The table above shows the results of the Hausman test, which had a random cross-section probability value of 0.0000. Therefore, the best model used in this study is the Fixed Effect Model, which is compared to the Random Effect Model.

Classical assumption test

Multicollinearity Test

The multicollinearity test, according to Ghozali & Ratmono (2017), is used to determine whether there is a high correlation between independent variables in a regression model. Ghozali & Ratmono (2017) state that the correlation coefficient between independent variables can be used to detect whether there is multicollinearity in a model. The regression model is said to be free of multicollinearity if the coefficients between the independent variables are <0.90. Following are the results of the multicollinearity test in this study.

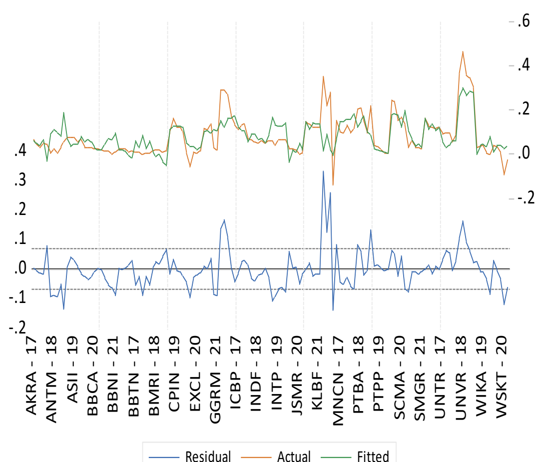
Table 3. Multicollinearity Test

	ROA	KM	UD	DKI	KA	KG	FS	LG
ROA	1.000000	-0.084105	-0.058318	0.236701	-0.048053	0.252962	-0.317266	-0.392675
KM	-0.084105	1.000000	0.003857	-0.043209	-0.188248	0.202931	-0.073569	-0.100013
UD	-0.058318	0.003857	1.000000	0.553828	0.143983	0.023046	0.745132	0.395013
DKI	0.236701	-0.043209	0.553828	1.000000	0.219971	0.200914	0.447805	0.443487
KA	-0.048053	-0.188248	0.143983	0.219971	1.000000	-0.036915	0.207531	0.385343
KG	0.252962	0.202931	0.023046	0.200914	-0.036915	1.000000	-0.061433	0.103664
FS	-0.317266	-0.073569	0.745132	0.447805	0.207531	-0.061433	1.000000	0.525672
LG	-0.392675	-0.100013	0.395013	0.443487	0.385343	0.103664	0.525672	1.000000

Based on the test results shown in Table 3., it can be seen that the correlation value between variables is still under the condition for multicollinearity, namely 0.90, so it is proven that there is no multicollinearity.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test



Based on the test results in Table 4, all variables have a probability value greater than 0.05, so it can be concluded that the data above does not show heteroscedasticity.

Goodness of Fit test

Determination Coefficient Test (R^2)

According to Ghozali & Ratmono (2013), testing the coefficient of determination (R^2) is used to determine how far the model's ability to explain variations in the dependent variables. The model's ability to explain the dependent variable can be seen from the Adjusted R-squared value in the following table:

Table 5. Determination Coefficient Test Results (R^2)

R-squared	0.873568
Adjusted R-squared	0.832628

The table shows that the Adjusted R-squared value is 0.873201 or 87.35%, which means that the ability of the independent variables and control variables can explain the company's financial performance as a proxy for the return on assets (ROA) of 87.35%. While the rest is explained by other variables outside this research model.

Simultaneous Significance Test (F Statistical Test)

Table 6. Simultaneous Significance Test Results (Statistical F Test)

F-statistic	21.33787
Prob(F-statistic)	0.000000

Based on the results of the F-statistic test above, it can be seen that the probability value of the F statistic in the model is 0.000000, so it can be explained that the probability value of the F-statistic in this model is <significance α 0.05, then H0 is rejected and Ha is accepted. That is, the independent variables and control variables used in this study simultaneously affect the dependent variable, namely the company's financial performance.

Hypothesis testing

Multiple Linear Regression Analysis

Based on the selection of estimation models that have been done, the fixed effect model was chosen as the best model, and panel data regression was performed in this study using the fixed effect model. Following are the results of the fixed effect model regression using Eviews version 12.

Table 7. Fixed Effect Model Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.300563	0.055960	5.371031	0.0000
KM	0.025772	0.041309	0.623873	0.5341
UD	0.010134	0.004710	2.151556	0.0337
DKI	-0.123962	0.072247	-1.715811	0.0891
KA	0.000309	0.000841	0.367392	0.7141
KG	0.068910	0.065735	1.048315	0.2969
FS	-3.01E-17	4.87E-17	-0.619099	0.5372
LG	-0.472640	0.068056	-6.944828	0.0000

Hypothesis testing is carried out with multiple linear regression using the fixed effect model with the following equation:

$$ROA = 0.300563 + 0.025772KM + 0.010134UD - 0.123962DKI + 0.000309KA + 0.068910KG - 3.01E\text{-}17FS - 0.472640LG + e$$

Individual Parameter Significance Test

Table 8. Results Significance of Individual Parameters

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.300563	0.055960	5.371031	0.0000
KM	0.025772	0.041309	0.623873	0.5341
UD	0.010134	0.004710	2.151556	0.0337
DKI	-0.123962	0.072247	-1.715811	0.0891
KA	0.000309	0.000841	0.367392	0.7141
KG	0.068910	0.065735	1.048315	0.2969
FS	-3.01E-17	4.87E-17	-0.619099	0.5372
LG	-0.472640	0.068056	-6.944828	0.0000

Based on Table, the managerial ownership variable (KM) has a coefficient value of 0.025772 with a probability of 0.5341 > 0.05. H1 states that managerial ownership has a positive and significant effect on the company's financial performance is rejected.

The variable size of the board of directors (UD) has a coefficient value of 0.010134 with a probability of 0.0337 <0.05. H2 states that the size of the board of directors has a positive and significant effect on the company's financial performance is accepted.

The independent board of commissioner variable (DKI) has a coefficient value of -0.123962 with a probability of 0.0891 > 0.05. H3 stated that the independent board of commissioners had a positive and significant effect on the company's financial performance was rejected.

The audit committee member meeting (KA) variable has a coefficient value of 0.000309 with a probability of 0.7141 > 0.05. H4 stated that the independent board of commissioners had a positive and insignificant effect on the company's financial performance was rejected.

The variable gender diversity (KG) has a coefficient value of 0.068910 with a probability of 0.2969 > 0.05. H5 states that gender diversity has a positive and significant effect on the company's financial performance is rejected.

The firm size variable (FS) has a coefficient value of -3.01E-17 with a probability of 0.5372 > 0.05. It can be concluded that company size has a negative and insignificant effect on the company's financial performance, which is proxied by ROA (Return on Assets).

The leverage board variable (LG) has a coefficient value of -0.472640 with a probability of 0.0000 <0.05. It can be concluded that leverage has a negative and significant effect on the company's financial performance, which is proxied by ROA (Return on Assets).

DISCUSSION

The Effect of Managerial Ownership on Company Financial Performance

The t-statistical test table shows that the managerial ownership variable has a coefficient value of 0.025772, which indicates that managerial ownership has a positive effect on the company's financial performance. Then, the significance probability shows a value of 0.5341, a value that is greater than the predetermined significance level of 0.05 (0.5341 > 0.05).

The positive results show that managerial ownership has increased, so the company's financial performance will increase, which can be seen from the increase in Return on Assets (ROA). Conversely, if managerial ownership of the company decreases, the financial performance of the company will decrease, as can be seen from the increase in Return on Assets (ROA). The insignificant results indicate that managerial ownership cannot yet represent all LQ45 index companies listed on the IDX in 2017-2021; however, it only affects the research sample.

In this study, managerial ownership has a positive and insignificant effect on the company's financial performance, which is not in line with agency theory. In the view of agency theory, the existence of greater managerial ownership in a company will provide benefits for the company to monitor the management of large shareholders so that it will minimize agency costs and have an impact on improving the company's financial performance (Maher & Anderson, 1999).

The results of this study are in line with research conducted by Ayunitha et al. (2020), Kao et al. (2018), Al Farooque, O., Buachoom, W., & Sun, L. (2020) which states that there is a positive relationship between managerial ownership and the company's financial performance.

The Effect of the Size of the Board of Directors on the Company's Financial Performance

The statistical test table shows that the variable size of the board of directors has a coefficient value of 0.010134, which indicates that the size of the board of directors has a positive effect on the company's financial performance. Then, the significance probability shows a value of 0.0337, which is smaller than the predetermined significance level of 0.05 (0.0337 <0.05).

Positive results indicate that the size of the board of directors has increased, so the company's financial performance will increase, which can be seen from the decrease in Return on Assets (ROA). Conversely, if the size of the board of directors at the company has decreased, then the financial performance of the company will have decreased, as can be seen from the decrease in Return on Assets (ROA). The significant results indicate that the size of the board of directors can represent all LQ45 index companies listed on the IDX in 2017-2021.

In this study, the size of the board of directors has a positive and significant effect on the company's financial performance, which is in line with agency theory. According to agency theory, the existence of a larger board of directors in a company will provide benefits to the company, such as better management control and monitoring and more optimal decision-making, which will reduce agency costs and have an impact on improving the company's financial performance (Masitoh & Hidayah, 2018).

The results of this study are in line with research conducted by Bansal, D., & Singh, S (2021); Gulzar et al. (2020); Shettima & Dzolkarnaini (2018); Queiri et al. (2021); Rahayu (2018); Fitriani & Zamzami (2018) which states that there is a positive relationship between the size of the board of directors and the company's financial performance. The large size of the board of directors able to produce diverse abilities and knowledge that can be used efficiently and effectively and reduce the dominance of managers in decision-making and corporate strategic planning so as to improve the company's financial performance (Kakanda et al., 2016)

The Influence of the Independent Board of Commissioners on the Company's Financial Performance

The t-statistical test table shows that the independent board of commissioners variable has a coefficient value of -0.123962, which indicates that the independent board of commissioners has a negative effect on the company's financial performance. Then, the significance probability shows a value of 0.0891, which is greater than the predetermined significance level of 0.05 (0.0891 > 0.05).

Negative results indicate that the board of independent commissioners has increased, so the company's financial performance will decrease, which can be seen from the increase in Return on Assets (ROA). The insignificant results indicate that the independent board of commissioners has not been able to represent all LQ45 companies listed on the IDX from 2017 to 2021; however, it only has an effect on the research sample. This can be interpreted as the proportion of independent commissioners in a company not guaranteeing good monitoring to minimize agency conflict and the possibility of manager behavior that can prioritize their own interests rather than the interests of shareholders (Suaidah & Setyoningrum, 2021).

Mahardika & Riyadi (2018) states that the independent board of commissioners does not

contribute and has a large impact on the company's financial performance because the existence of an independent board of commissioners in the company is only a formality to comply with regulations made by the Financial Services Authority in Financial Services Authority Regulation Number 33/ POJK.04/2014, so it does not uphold corporate governance properly.

In this study, the independent board of commissioners has a negative and insignificant effect on the company's financial performance, which is not in line with agency theory. Agency theory says that agency conflicts that can lead to agency costs can be minimized with quality supervision (Jensen & Meckling, 1976). The voice of the company's shareholders can be better represented when the percentage of independent commissioners in a company has increased, which can minimize the possibility of agency problems occurring between management and shareholders. Besides, supervision will be more stringent, which will have an impact on reducing agency costs so that financial performance will increase (Pratiwi et al., 2016).

The results of this study are in line with research conducted by Gulzar et al. (2020) and Sobhan (2021), which states that there is a negative relationship between the independent board of commissioners and the company's financial performance. The independent board of commissioners has not functioned properly because the majority shareholder has strong control and plays an important role in the company, so the monitoring function carried out by the independent board of commissioners is ineffective (Situmorang & Simanjuntak, 2019). The presence of an independent board of commissioners tasked with overseeing management also does not all act professionally due to inadequate knowledge and information about the company's financial performance, so the board of independent commissioners cannot review the actions of managers or reveal management errors (Apriliani & Dewayanto, 2018).

The Effect of Audit Committee Meetings on the Company's Financial Performance

The fourth alternative hypothesis (Ha4) presented in this study is that audit committee meetings have a positive and significant effect on the company's financial performance. This means that the higher the audit committee meeting is, the better the company's financial performance will be, which is marked by an increase in net profit generated from the total assets owned. The t-statistical test table shows that the audit committee meeting variable has a coefficient value of 0.000309, which indicates that audit committee meetings have a positive effect on the company's financial performance. Then, the significance probability shows a value of 0.7141, which is greater than the predetermined significance level of 0.05 (0.7141 > 0.05). These results can be interpreted that the audit committee meeting has a positive and not significant effect on the company's financial performance, so it can be concluded that the alternative hypothesis one (Ha1), which states that the audit committee meeting has a positive and significant effect on the company's financial performance is rejected.

The positive results show that the audit committee meetings have increased, so the company's financial performance will increase, which can be seen from the increase in Return on Assets (ROA). Conversely, if the audit committee meeting at the company has decreased, then the financial performance of the company will have decreased, which can be seen from the decrease in Return on Assets (ROA). Insignificant results indicate that the audit committee meeting has not been able to represent all LQ45 index companies listed on the IDX in 2017-2021.

In this study, audit committee meetings have a positive and significant effect on the company's financial performance, which is in line with agency theory. According to agency theory, the frequency of committee meetings can be assigned by the committee, so monitoring goes well and can motivate the board to perform even better (Yakob & Hasan, 2021).

The results of this study are in line with research conducted by Prasetio & Rinoya (2021), which states that there is a positive relationship between audit committee meetings and company financial performance.

The Effect of Gender Diversity on Company Financial Performance

The fifth alternative hypothesis (Ha5) presented in this study is that gender diversity has a positive and significant effect on the company's financial performance. This means that the higher gender diversity is able to improve the company's financial performance, which is marked by an increase in net profit generated from the total assets owned. The t-statistical test table shows that the gender diversity variable has a coefficient value of 0.068910, which indicates that gender diversity has a positive effect on the company's financial performance. Then, the significance probability shows a value of 0.2969, which is greater than the predetermined significance level of 0.05 (0.2969 > 0.05).

The positive results show that gender diversity has increased, so the company's financial performance will increase, which can be seen from the increase in Return on Assets (ROA). Conversely, if gender diversity in the company has decreased, then the financial performance of

the company will increase, indicating that gender diversity cannot yet represent all LQ45 index companies listed on the IDX for 2017-2021; however, it only affects the research sample.

Gender diversity is part of the broader concept of board diversity (Kaur & Vu, 2017). Gender diversity has a positive and insignificant effect on the company's financial performance in this study, which is not in line with agency theory. According to agency theory, gender diversity is a source of competitive advantage because women contribute to the company's monitoring efforts through their creativity, which improves the quality of the board's decision-making process, thus having an impact on improving company performance (Ahern & Dittmar, 2012). Judging from the table of descriptive statistics, the average value of the variable gender diversity is 16.36%, which indicates that the board of directors structure is dominated by male boards of 83.64%; in other words, gender diversity is still a minority.

The results of this study are in line with research conducted by Ramadan, M. M., & Hassan, M. K (2021), and Kiptoo et al. (2021), which state that there is a positive relationship between gender diversity and company financial performance.

The Effect of Firm Size Control Variable on Company Financial Performance

The t-statistical test table shows that the control variable firm size has a coefficient value of -3.01E-17, which indicates that firm size has a negative effect on the firm's financial performance. Then, the significance probability shows a value of 0.5372, which is greater than the predetermined significance level of 0.05 (0.5372 > 0.05). These results can be interpreted as the size of the company having a negative and insignificant effect on the company's financial performance. The insignificant results indicate that company size cannot represent all LQ45 index companies listed on the IDX in 2017-2021.

The results of this study are in line with research conducted by Gulzar et al. (2020), Kyere, M., & Ausloos, M. (2021), which states that there is a negative relationship between company size and company financial performance.

The Effect of Leverage Control Variables on Company Financial Performance

The t-statistical test table shows that the leverage control variable has a coefficient value of -0.472640, which indicates that leverage has a negative effect on the company's financial performance. Then, the significance probability shows a value of 0.0000, which is smaller than the predetermined significance level of 0.05 (0.0000 <0.05). These results can be interpreted as leverage having a negative and significant effect on the company's financial performance. Significant results indicate that leverage can represent all LQ45 index companies in 2017-2021.

The results of this study are in line with research conducted by Simionescu et al. (2021), which states that there is a negative relationship between leverage and company financial performance.

CONCLUSION AND RECOMMENDATION

This study aims to examine the effect of good corporate governance on the financial performance of companies listed on the LQ45 index. This study uses control variables, namely firm size and leverage. The results showed that the managerial ownership variable had no significant positive effect on the company's financial performance. The size of the board of directors has a significant positive effect on the company's financial performance. The independent board of commissioners has no significant negative effect on the company's financial performance. Audit committee meetings have no significant positive effect on the company's financial performance. Gender diversity has no significant positive effect on the company's financial performance. Company size has no significant negative effect on the company's financial performance. Leverage has a significant negative effect on the company's financial performance

The limitation of this study is that the sample of research variables cannot represent all companies listed in the LQ45 index, so there are several variables that are not significant. For further research, the results of this study can be used as reference material for conducting research related to the company's financial performance. Further research is suggested to use other proxies in measuring the company's financial performance from a financial perspective, such as ROE, to determine the consistency of results if different proxies are used. Then, testing on other sectors with a longer research period regarding the company's financial performance can also be carried out.

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